

806 KAR 6:090. Discounting of casualty insurance loss reserves.

RELATES TO: KRS 304.4-010, 304.6-100

STATUTORY AUTHORITY: KRS Chapter 13A, 304.2-110, 304.6-100

NECESSITY, FUNCTION, AND CONFORMITY: KRS 304.2-110 provides that the Commissioner of Insurance may make reasonable administrative regulations necessary for or as an aid to the effectuation of any provision of the Kentucky Insurance Code. KRS 304.6-100 authorizes the Commissioner of Insurance to make administrative regulations for the computing of casualty insurance reserves. This administrative regulation permits and regulates the discounting of loss reserves for certain types of casualty insurance.

Section 1. Definitions. As used in this administrative regulation:

- (1) "Annual or other financial statements" means the annual statement required by KRS 304.3-240 and all supplements thereto and any other financial statements required by the commissioner;
- (2) "Casualty insurance" has the meaning set forth in KRS 304.5-070;
- (3) "Commissioner" means the Commissioner of the Kentucky Office of Insurance;
- (4) "Domestic insurer" has the meaning set forth in KRS 304.1-070(1);
- (5) "Loss reserves" and "loss adjustment expense reserves," hereinafter called "loss reserves," means the same as in the Annual Statement Convention Blank filed with the National Association of Insurance Commissioners;
- (6) "Medical malpractice insurance" means insurance as defined in KRS 304.5-070(1)(j) issued to health care providers, excess insurance issued to a medical malpractice self-insured plan, and reinsurance of medical malpractice insurance;
- (7) "Qualified actuary" means:
 - (a) A member of the American Academy of Actuaries; or
 - (b) A person who has demonstrated to the satisfaction of the commissioner educational background necessary for reserving and other actuarial sciences and has not less than seven (7) years of relevant actuarial experience;
- (8) "Workers' compensation insurance" has the meaning set forth in KRS 304.5-070(1)(c).

Section 2. Discounting of Casualty Insurance Loss Reserves.

- (1) Domestic insurers may discount loss reserves for medical malpractice insurance, workers' compensation insurance, and such other kinds of casualty insurance as may be approved by order of the commissioner.
- (2) The reserves that may be discounted are loss reserves, including reserves for incurred but not reported claims and case reserves.
- (3) All filings involving discounting of loss reserves shall contain the information required by this administrative regulation.

Section 3. Actuarial Statement of Opinion.

- (1) All filings involving discounting of loss reserves shall be accompanied by an actuarial statement of opinion reflecting accurately the effect of discounting of loss reserves on the domestic insurer's financial condition. The actuarial statement of opinion shall be by a qualified actuary.
- (2) The actuarial statement of opinion shall include the following:
 - (a) An assessment of the adequacy of the undiscounted reserve (i.e., full value reserve prior to discounting);
 - (b) An assessment of the appropriateness of the assumed interest rate, considering at least the following:
 1. Valuation basis of bonds (market value as opposed to amortized value);
 2. Yield on assets;

3. Asset maturities (i.e., do they reasonably match the maturities of the corresponding liabilities?); and
 4. Consistency with interest rate assumptions used in pricing.
- (c) An assessment of the appropriateness of the anticipated payment schedule, considering at least the following:
1. The domestic insurer's own paid loss development history to the extent available and credible;
 2. To the extent that such history is not available or credible, the applicability of broader based industry experience, in particular with respect to the form of coverage (e.g., occurrence as opposed to claims made coverage forms) and retention level; and
 3. The domestic insurer's reinsurance recoverables.
- (d) A description of the formula(s) used for discounting, including any provision for adverse deviation;
- (e) Any other factors needed to reflect accurately the effect of discounting on the financial condition of the domestic insurer or required by the commissioner.

Section 4. Disclosure of Discounting of Loss Reserves in Annual and Other Financial Statements.

(1) Domestic insurers discounting loss reserves shall disclose the discounting of loss reserves in their annual and other financial statements in a manner which will reflect accurately the effect of discounting of loss reserves on the domestic insurer's financial condition. The commissioner may by order specify particular portions or schedules of the annual or other financial statements in which a specific type of disclosure is needed to reflect accurately the effect of discounting of loss reserves on a domestic insurer's financial condition.

(2) Insurers discounting loss reserves shall prepare schedule P, parts 1, 2, and 3, of the annual statement on an undiscounted basis, with schedule P, part 4, of the annual statement providing reconciliation between undiscounted loss reserves and discounted loss reserves. If schedule P of the annual statement is altered or replaced, insurers discounting loss reserves shall complete such schedules or other portions of the annual statement to disclose the discounting of loss reserves in accordance with the instructions of the commissioner.

Section 5. Limitations on Discounting of Loss Reserves. In no event shall discounting of loss reserves by an insurer result in reserves which do not meet the requirements of KRS 304.6-100(3).

Section 6. This administrative regulation shall apply to financial statements covering the financial condition of an insurer on or after January 1, 1988.

(14 Ky.R. 1035; Am. 1285; eff. 1-4-88; TAm eff. 8-9-2007; Crt eff. 2-26-2020; TAm eff. 3-10-2020.)